

ANNUAL REPORT TO THE MEMBERS

Dear Members, The Board of Directors of Akhuwat (UK) Ltd. is pleased to present to you the financial statements for the year ended June 30, 2008. The financial statements show that Akhuwat has achieved a surplus for the year, which is a testament to the hard work and dedication of our staff and volunteers. We are grateful for the support and contributions of our members and the public.

The financial statements are prepared in accordance with the provisions of the Companies Act, 1993 and the Companies (Accounts) Regulations, 2001. The financial statements are audited by the Chartered Accountants, who have issued their audit report in accordance with the provisions of the Companies Act, 1993.

AKHUWAT

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED JUNE 30, 2008**

The financial statements are prepared on a going concern basis. The financial statements are prepared in accordance with the provisions of the Companies Act, 1993 and the Companies (Accounts) Regulations, 2001.

The financial statements are prepared in accordance with the provisions of the Companies Act, 1993 and the Companies (Accounts) Regulations, 2001. The financial statements are audited by the Chartered Accountants, who have issued their audit report in accordance with the provisions of the Companies Act, 1993.

The financial statements of Akhuwat (UK) Ltd. for the year ended June 30, 2008, are prepared in accordance with the provisions of the Companies Act, 1993 and the Companies (Accounts) Regulations, 2001.

Chartered Accountants

Chartered Accountants

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AUDITORS' REPORT TO THE MEMBERS


We have audited the annexed balance sheet of Akhuwat (the Organization) as at June 30, 2008 and the related statement of income and expense, statement of changes in funds and statement of cashflows together with the notes forming part thereof (hereinafter referred to as the "financial statements") for the year then ended.

It is the responsibility of the management to establish and maintain a system of internal control and prepare and present the financial statements. Our responsibility, is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects the financial position of Akhuwat as at June 30, 2008 and of its deficit for the year then ended on the basis of accounting policies described in note 4 to the financial statements.

The financial statements of the company for the year ended June 30, 2007 were audited by another auditor who expressed an unqualified opinion thereon.


Chartered Accountants

Engagement Partner: Imran Farooq Mian

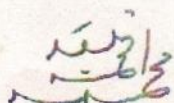
Lahore, August 9, 2007

AKHUWAT

BALANCE SHEET AS AT JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees
Assets			
Current assets			
Short term advances	5	1,436,096	796,119
Micro loans portfolio	6	59,263,752	49,898,063
Cash and bank	7	7,453,245	8,879,542
		68,153,093	59,573,724
Non-current assets			
Operating fixed assets	8	3,754,296	3,668,542
Long term advances and security deposits	9	2,336,200	840,450
Long term portion of micro loans portfolio	10	10,308,797	300,000
		16,399,293	4,808,992
		84,552,386	64,382,716
Liabilities			
Creditors, accrued and other liabilities	11	1,057,023	725,050
Provident fund payable		664,008	285,977
		1,721,031	1,011,027
Non-current liabilities			
Loan for credit pool		500,000	500,000
		2,221,031	1,511,027
		<u>82,331,355</u>	<u>62,871,689</u>
Represented by			
Donated funds		88,704,872	67,289,995
Accumulated loss		(6,794,617)	(4,418,306)
Takaful funds		421,100	-
		82,331,355	62,871,689
Contingencies and commitments	12	<u>82,331,355</u>	<u>62,871,689</u>

The annexed notes 1 to 18 form an integral part of these financial statements.



Executive Director



Secretary

AKHUWAT

STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees
Income			
Processing fee	13	8,830,361	4,922,939
Other income	14	1,585,636	443,078
		10,415,997	5,366,017
Expenditure			
General and administrative expenses	15	10,304,364	7,251,836
Programme assistance	16	550,163	809,852
Loan loss provision	6.5	2,270,681	215,018
		13,125,208	8,276,706
Deficit for the year		<u>(2,709,211)</u>	<u>(2,910,689)</u>

The annexed notes 1 to 18 form an integral part of these financial statements.

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Executive Director

Secretary

AKHUWAT

STATEMENT OF CHANGES IN FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Donated funds <u>Rupees</u>	Accumulated Loss <u>Rupees</u>	Takaful Fund <u>Rupees</u>	Total <u>Rupees</u>
Balance as at July 1, 2007	49,568,988	(1,507,617)	-	48,061,371
Deficit for the year	-	(2,910,689)	-	(2,910,689)
Grants received during the year	17,721,007	-	-	17,721,007
Balance as at June 30, 2007	<u>67,289,995</u>	<u>(4,418,306)</u>	-	<u>62,871,689</u>
Deficit for the year		(2,709,211)		(2,709,211)
Grants received during the year	21,414,877		754,000	22,168,877
Death claims realized during the year transferred from Takaful Fund to Accumulated losses		332,900	(332,900)	-
Balance as at June 30, 2008	<u><u>88,704,872</u></u>	<u><u>(6,794,617)</u></u>	<u><u>421,100</u></u>	<u><u>82,331,355</u></u>

The annexed notes 1 to 18 form an integral part of these financial statements.

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Executive Director



Secretary

AKHUWAT

CASHFLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees
Cash flow from operating activities			
Deficit for the year		(2,709,211)	(2,910,689)
Adjustments for non cash items:			
Depreciation on operating fixed assets		191,665	155,161
Fixed assets written off		30,981	-
		222,646	155,161
Surplus before working capital changes		(2,486,565)	(2,755,528)
Effect on cash flow due to working capital changes			
(Increase)/decrease in loan portfolio		(19,374,486)	(12,194,131)
(Increase)/decrease in advances		(2,135,727)	(458,041)
Increase/(decrease) in creditors, accrued and other liabilities		331,973	126,601
Increase in provident fund payable		378,031	-
		(20,800,209)	(12,525,571)
Net cash used in operating activities		(23,286,774)	(15,281,099)
Cash flow from investing activities			
Fixed capital expenditure		(308,400)	(3,668,816)
Net cash used in investing activities		(308,400)	(3,668,816)
Cash flow from financing activities			
Grants received during the year		22,168,877	17,721,007
Proceeds of loans for credit pool		-	500,000
Net cash from financing activities		22,168,877	18,221,007
Net increase in cash and cash equivalents		(1,426,297)	(728,908)
Cash and cash equivalents at the beginning of the year		8,879,542	9,608,450
Cash and cash equivalents at the end of the year	7	7,453,245	8,879,542

The annexed notes 1 to 18 form an integral part of these financial statements.

Executive Director

Secretary

AKHUWAT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

1. Legal status and nature of business

Akhuwat (the Organization) was registered in Pakistan on May 13, 2003 as a society, under Societies Registration Act, 1860. It has a total of seventeen branches, across the province of Punjab.

The Organization was established to provide interest free micro credit and to launch ancillary programmes of various short and long term nature. The Organization is principally engaged to carry on the following objectives:

- Organizing women, in particular, and men in general into socially viable community groups called Self Help Groups.
- Providing interest free micro credit finance services to the poor women through Self Help groups and the individuals.
- Capacity building through interest free credit enhancement to poor in urban slums with a view to make them self-reliant.
- Creating avenues for Self-employment and broadening scope of opportunities available to the poor.
- Identifying people / Organizations desirous of planning and executing such programmes elsewhere and Providing them with necessary support and resources.

2. Basis of preparation

These financial statements have been in accordance with generally accepted accounting principles as applicable in Pakistan.

3. Basis of measurement

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying its accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Operating fixed assets

Operating fixed assets are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is carried at cost less any identified impairment loss. Depreciation on all operating fixed assets is charged to profit on reducing balance method so as to write off the historical cost of an asset over its estimated useful life at the rates referred to in note 8 to the financial statements.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to operating fixed assets is charged for the whole year in the year it is acquired or capitalised, while no depreciation is charged for the year in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal of an asset represented by difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.2 Loan loss provision

Loan loss provision at the rate of 1% of the total outstanding balance of individual and group loans portfolio at year end is determined.

4.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.4 Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Organization.

4.5 Staff retirement benefits

The Organization operates an unapproved defined contribution provident fund scheme for its eligible employees. Monthly deductions are made from the salaries of the employees at the rate of 10% of basic salary. The Organization recognises an equal charge in the income of the Organization. The accumulated amount has been recognised as liability in the balance sheet.

4.6 Recognition of grants and donations

Grants received for providing loans to borrowers are directly recognized in capitalisation fund. Other funds, including funds generated from hide collection, provided by the donor to subsidize operating and administrative expenses are recognized directly as income, in the period of receipt.

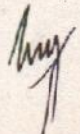
4.7 Taxation

The Organisation's income is taxable at normal rates of tax. However, the Organisation does not have a tax liability for the year ended June 30, 2008 due to the available tax losses.

4.8 Revenue recognition

Processing fee for micro credit loans collected from borrowers is recognized on receipt basis.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.



		2008 Rupees	2007 Rupees
5. Short term advances - considered good			
Advance tax		288,547	165,825
Other advances		78,726	111,908
Advances to staff			
- Motorcycle loans - unsecured	5.1	890,860	596,450
- Housing loans - secured	5.2	1,751,000	-
- Miscellaneous loans - unsecured	5.3	705,658	490,886
		3,347,518	1,087,336
Less: Long term portion of advances to staff	9	(2,278,695)	(568,950)
		1,068,823	518,386
		<u>1,436,096</u>	<u>796,119</u>

5.1 This represents interest free long term loans to own staff as well as staff of franchisee organizations for purchase of motorcycles. This amount is payable over a period of 3 to 7 years by way of equal installments ranging from Rs 750 to Rs 1,000 per month.

5.2 This represents interest housing loans provided to employees for purchase of a new house, construction of house and repair and maintenance of an existing house. These loans are repayable in 15 years in unequal installments ranging from Rs 3,000 to Rs 5,000 per month.

5.3 This represents long term loans given to permanent employees of Akhuwat. This amount is payable in unequal installments over a period of more than one year.

		2008 Rupees	2007 Rupees
6. Micro loans portfolio - unsecured - considered good			
Educational loans	6.1	135,250	7,000
Franchisee loans	6.2	1,813,000	293,000
Individual loans	6.3	67,486,923	50,404,493
Group loans	6.4	820,450	-
		70,255,623	50,704,493
Less: Loan loss provision	6.5	(683,074)	(506,430)
		69,572,549	50,198,063
Less: Long term portion	10	(10,308,797)	(300,000)
		<u>59,263,752</u>	<u>49,898,063</u>

6.1 These are long term interest free micro loans given to needy students to meet their educational expenses.

6.2 This represents interest free loans given to enterprise cum training institutes in different areas of Pakistan as part of the Organization's franchise programme developed to promote its objectives through partner organizations. Though these loans are treated as Qarz-e-Hasana with repayment terms of 1.5 to 3 year; however, some of them do not have a specific repayment term. Following are the loans appearing under Franchisee loans:

Franchisee organization	2008 Rupees	2007 Rupees
Muqadar (Sargodha)	101,000	101,000
Seep (Kasur)	96,000	96,000
Katti Programme	78,000	78,000
Salim Ranjha (Village Mid Ranjha)	18,000	18,000
Muslim Aid	240,000	-
ECl (Private) Limited	300,000	-
Kawish Welfare Trust	330,000	-
Decent Welfare (Gujrat)	350,000	-
Help Line (Lahore)	100,000	-
SOJHRO (Khairpur)	200,000	-
Others	-	-
	<u>1,813,000</u>	<u>293,000</u>

6.3 These are loans given to individuals for productive / income generating activities against a personal guarantee. Processing fee @ 6.5% of the principal amount is received upfront. However loans less than or equal to Rs 4,000 are exempt from processing fee. These loans have a repayment term ranging from 3 months to 5 years.

6.4 This represents micro credit, interest free loans given to female entrepreneurs for productive / income generating activities on social collateral i.e. all members of group are collectively responsible for repayment of loan. Processing fee for each loan @ 6.5% of the principal amount is received upfront. However loans less than or equal to Rs 4,000 are exempt from processing fee. These loans have a repayment term ranging from 3 months to 2 years.

6.5 Loan loss Provision



Balance as at July 1, 2007	506,430	291,465
Charge for the year	2,270,681	215,018
	<u>2,777,111</u>	<u>506,483</u>
Amounts written off	(2,094,037)	(53)
Balance as at June 30, 2008	<u>683,074</u>	<u>506,430</u>

7. Cash and bank

At bank		
- in current account	6,723,049	8,400,073
- in term deposit receipts	500,000	-
	<u>7,223,049</u>	<u>8,400,073</u>
In hand	230,196	479,469
	<u>7,453,245</u>	<u>8,879,542</u>

8. Fixed assets

Particulars	Cost as at July 1, 2007	Additions/ (Deletions)	Cost as at June 30, 2008	Accumulated depreciation as at July 1, 2007	Depreciation charge/ (deletions) for the year 2008	Accumulated depreciation as at June 30, 2008	Book value as at June 30, 2008	Rate %
Free hold land	2,590,000	-	2,590,000	-	-	-	2,590,000	
Building on Freehold Land	935,000	-	935,000	93,500	84,150	177,650	757,350	10
Office Equipment	59,146	59,740 (23,950)	94,936	8,808	11,009 (6,328)	13,489	81,447	10
Furniture & Fixtures	117,596	184,260 (16,910)	284,946	23,500	42,731 (4,583)	61,648	223,298	10
Computers	188,600	64,400 (2,300)	250,700	95,992	53,775 (1,268)	148,499	102,201	33
Rupees - 2008	3,890,342	308,400 (43,160)	4,155,582	221,800	191,665 (12,179)	401,286	3,754,296	
Rupees - 2007	221,526	3,668,816	3,890,342	66,639	155,161	221,800	3,668,542	

		2008 Rupees	2007 Rupees
9. Long term advances and security deposits			
Long term advances to staff - considered good			
- Motorcycle loans		559,520	458,450
- House loans		1,511,000	-
- Miscellaneous loans		208,175	110,500
	5	<u>2,278,695</u>	<u>568,950</u>
Long term security deposits		57,505	271,500
		<u>2,336,200</u>	<u>840,450</u>

10. Long term portion of micro loans portfolio			
- Educational loans		129,250	7,000
- Franchisee loans		1,513,000	293,000
- Individual loans		8,666,547	-
	6	<u>10,308,797</u>	<u>300,000</u>

11. Creditors, accrued and other liabilities			
Accrued expenses		313,279	49,450
Other liabilities	11.1	743,744	675,600
		<u>1,057,023</u>	<u>725,050</u>

11.1 Other liabilities include Rs 700,000 due to Executive director in respect of amounts advanced to meet short term needs of the Organization. The amount was subsequently repaid in full.

12. Contingencies and commitments

Nil

		2008 Rupees	2007 Rupees
13. Processing fee			
Processing fee		<u>8,830,361</u>	<u>4,922,939</u>

This represents non refundable processing fee at the rate 6.5% of the principal amount deposited by the borrowers to access the loan.

		2008 Rupees	2007 Rupees
14. Other income			
Income from bank deposits		189,982	14,027
Sale of books and cd's		85,650	-
Income from hide collection		134,057	152,800
Miscellaneous		1,175,947	276,251
		<u>1,585,636</u>	<u>443,078</u>

	2008 Rupees	2007 Rupees
15. General and administrative expenses		
Salaries, wages and benefits	7,374,359	5,755,134
Contribution to provident fund	219,790	154,310
Travelling and conveyance	919,894	185,614
Printing and photocopy	329,253	203,698
Stationary	122,110	95,804
Communication	23,153	20,215
Office supplies	73,216	111,570
Consultancy charges	-	134,251
Fee and subscription	70,225	130,000
Bank charges	112,329	30,084
Depreciation	179,485	155,161
Audit	65,000	44,600
Utilities	137,773	88,230
Repair & maintenance	111,176	17,090
Rent	292,600	51,000
Staff training	52,216	12,180
Miscellaneous	221,785	62,895
	<u>10,304,364</u>	<u>7,251,836</u>
16. Programme assistance		
Programme assistance	<u>550,163</u>	<u>809,852</u>

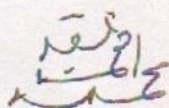
This represents expenses incurred on annual functions, new programme launchings and website hosting.

17. Date of authorization for issue

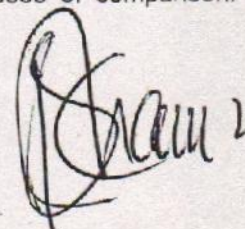
These financial statements were authorized for issue on August 9, 2009 by the board of directors of the Organization.

18. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re arrangements have been made.



Executive Director



Secretary